Today

- Differences in economic growth
- Traditional explanations for economic growth
  - Factor endowments
  - Factor endowments + luck
  - Culture
- Institutional explanations
  - Property rights and enforcement of contracts
  - Democracy, pro and con
  - Other institutional explanations

Some big differences to explain
- Huge variation out there between rich and poor countries
- Variation over time within most countries, and some evidence of “reversals of fortune” (e.g., Argentina)
- Most famous case: East Asia vs. Latin America during postwar era
- Natural experiments in communism vs. capitalism: Korea and Germany

Non-institutional reasons for economic growth
Factor endowments (land, natural resources, etc.)
- Might explain general levels of poverty across territories (e.g., hunter-gatherers vs. farmers vs. rich societies)
- Might not explain change very well
- Size (e.g., China), though not always a cause as rich countries may expand

Culture
Different attitudes toward education, time management, etc.
- As with all cultural arguments, hard to separate those from national identity
- But most famous these days is the issue of interpersonal trust. Why might that matter for economic growth?

Problems with culture and factor endowments
We’re focusing on institutional reasons for growth.
- Protect private property rights and enforce investments
- What does that mean?
- Why might that be important?

What types of governments protect property rights and enforce contracts
- When will I invest?
- Really matters with respect to the state
- A modern example: Haiti under Francois “Papa Doc” Duvalier
- Intellectual property protection

Is democracy good or bad for property rights? Why?

What checks on government’s authority might you imagine?

1. E.g.: When will governments expropriate?
2. Institutions well below level of regime
- “Embedded autonomy” by Peter Evans, comparing countries like Mexico, Brazil, South Korea and Taiwan.

3. Still more:
- Federalism
- Political regimes
- Different types of autocracy and relevance for growth
- Disaster scenario: Communism
- Let’s get really complicated: different institutions for different stages and types of economies.

What institutions have we NOT talked about? This is just as important!
- Income taxes, property taxes, sales taxes, minimum wage

**Background on individual authors**

**Przeworski and Limongi**
- What are main arguments that democracy good? Bad?
- Overall effect of democracy? Little evidence.
- But some evidence that the outcome in dictatorships is more variable

**Weingast**
- The game is between the sovereign and the producer
- Key is a constraint on expropriation
- Has to do with time horizons as well (See Przeworski and Limongi)

**Mancur Olson**
- How do you pick up the big bills?
- It’s not factor endowments (natural resources, capital)
- It’s not culture (look at migrants)
- It’s institutions
- Which ones? NOT about redistribution or size of government

**De Soto**
- What is missing?
- What is dead capital?
- Other relevant points
  - Coase Theorem
  - Social irrationality from individual rationality
  - Diminishing returns (show wine and quality); diminishing returns to labor
  - “Wrong sign”: Mancur Olson, population density
  - Some big failures (Argentina)
  - Some big success stories (USA)